

# BTI 2008 | Guatemala Country Report

<b>Status Index</b>	1-10	<b>5.43</b>	# 71 of 125	
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	12.6	HDI	0.67	GDP p.c.	\$	4,064
Pop. growth <sup>1</sup>	% p.a.	2.4	HDI rank of 177	118	Gini Index		55.1
Life expectancy	years	68	UN Education Index	0.68	Poverty <sup>3</sup>	%	31.9
Urban population	%	47.2	Gender equality <sup>2</sup>	-	Aid per capita	\$	20.1

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

The 29th of December 2006 marked the 10th anniversary of the signing of the Guatemalan peace accords, which ended 36 years of internal war. However, according to the majority of Guatemalans, there was little to celebrate. Although opportunities for civil participation have been expanded in the last decade, the country's most pressing social and economic problems remain unsolved. The indigenous population, which makes up more than half of the population, is subject to discrimination, racism and exclusion regularly. Overall, transformation in Guatemala stagnated during the period under review.

Increasing violence and the growing influence of criminal networks are the most disturbing developments in Guatemala's transformation process. Official police statistics cite 5,500 and 5,885 homicides in 2005 and 2006 respectively; the level of violence has thus reached record levels since the end of the civil war. Members of youth gangs, beggars, and street children are subject to acts of "social cleansing," and political violence waged against leaders of social movements, journalists and politicians of opposition parties is on the rise. In addition, homicide rate for young women is also growing. According to Amnesty International, over 2,200 women have been killed in Guatemala since 2001.

This increase in violence is accompanied by a high level of impunity for homicides and other criminal acts. The deterioration of public security can be attributed to deficits in the judicial system as well as corruption and inefficiency in the national civil police. In 2005, 2,500 police officers were removed from duty after it was found they were involved in criminal activities. Their replacement with former soldiers has been criticized by national and international human rights groups. At the end of 2006, the Guatemalan government signed a new agreement with the United Nations to establish a UN commission to investigate illegally armed and criminal groups in the country. The

agreement must still be ratified by Guatemala's Congress. In 2005, the Guatemalan government signed an agreement with the UNHCHR to establish a field office in Guatemala City.

The political system remains highly instable and shows a growing degree of fragmentation. The ruling Grand National Alliance (GAN) coalition was reduced to just 20 seats in Congress as many politicians left the coalition. In view of the general elections to be held in September 2007 and due to the fact that governing parties have not been re-elected since the democratization process began 20 years ago, Guatemalan political parties began not only to select their presidential candidates but also formed new alliances in Congress. A stable macroeconomic development helped little to overcome existing social inequalities during the review period. Deeply embedded social cleavages between various social groups (rural and urban, indigenous and Ladino) in terms of wealth, access to social and economic infrastructures, etc. persists. A widespread informal sector not only limits opportunities for 70% of the population, but also limits access to the legal system and other basic entitlements.

## History and Characteristics of Transformation

The history of Guatemala's transformation is marked by a close linkage between democratization during war and the promises made through the 1996 peace accords to deepen democratization. In 1984, the armed forces initiated the process with elections for a constitutional convention, followed by parliamentary and presidential elections in 1986. However, the spectrum of political actors in these elections remained limited, with the political left largely excluded. The controlled opening up of the political system allowed the military to retain many enclaves of power, particularly in "internal security." Only when the government and the guerrillas entered into peace negotiations were accords struck that aimed at lifting these restrictions on democracy. Of central importance were the Accord on Strengthening Civilian Power and the Role of the Army in a Democratic Society (signed on 19 September 1996), the Accord on Constitutional and Electoral Reforms (7 December 1996) and the Accord on the Rights of Indigenous Peoples (31 March 1996). A similar situation applies to the economy, where the Accord on Socioeconomic Issues and the Agrarian Situation (6 May 1996) is the key reference point for transformation.

In the first postwar years, Guatemala, like many other postwar societies, faced the dilemma of implementing the terms of the peace accords and repairing the ravages of war while pursuing macroeconomic structural adjustments initiated during the Arzú administration (1996 – 2000). Core measures aimed at reducing the budget deficit through a restrictive monetary policy, raising the value added tax from 7% to 10% and combating widespread tax evasion. None of these goals has yet been achieved. In

addition, state utilities such as the telephone and electricity companies were privatized. Battling the illegal and criminal economy, which has mushroomed since the 1990s and relies mainly on the drug trade, money laundering and smuggling items such as automobiles, poses an increasing challenge to both political as well as economic transformation. Criminal network ties to politicians and the state apparatus became increasingly evident during the government of Alfonso Portillo Guatemalan Republican Front (FRG, 2000 – 2003). Since then, Oscar Berger's government (2004 – 2007) has attempted to counteract this development, but it has not been able to change the situation.

Economic and political transformation remains closely tied to the question of implementing the peace accords. Although every government since 1996 has promised to make the implementation of the peace accords a central issue, progress has been limited. When the UN verification mission (MINUGUA) left Guatemala at the end of 2004 after 10 years of work, it was clear that significant progress had been made in the field of formal politics. However, the implementation of other accords – such as those promoting indigenous rights and socioeconomic measures – has fallen far short of stated goals.

Fragile state institutions and their lack of transparency and accountability are in urgent need of being addressed by the government. Other hurdles to political and economic transformation include the lack of public security, which makes Guatemala one of the most dangerous countries in the Americas. The fragmentation of civil society and other organized interest groups renders cooperation, compromise and participation within Guatemalan society even more difficult. In addition, there are no linkages between civil society and the party system, which poses further problems as Congress often rejects agreements made between civil society and the government.

Indígenas, or indigenous peoples, who constitute the majority (approximately 60%) are vastly under-represented in politics and the economy. In the national election of 2003, Indígenas made up only 13% of the candidates. Integrating Indígenas within the transformation process will remain the single most important challenge in the near future. Neglecting their rightful claims to a better life could lead to a process of politicization and radicalization, as has been the case in other Latin American countries. Oscar Berger's government made at least a symbolic concession when it established a Council of Indigenous Advisers in 2006.

## Transformation Status

### I. Democracy

During the review period, there were no major incidents threatening democracy directly, but no progress in implementing reforms was made either. President Berger saw his popular support diminish from an approval rating of 89% during his first year in office to a disapproval rate of 75% at mid-term in 2006. Many people are disappointed that Berger has not fulfilled the promises he made during his campaign and there have been calls for a referendum on his rule. While the Berger administration was not able to begin solving the most pressing problems, the increasing influence of organized crime and the rising levels of violence weaken already fragile state structures, undermine the rule of law and endanger civil spaces for discussion and participation.

#### 1 | Stateness

The state's monopoly on the use of force is established nationwide in principle, but it is challenged by criminal networks in some parts of the country. Hotspots include the border regions with Mexico in the north and with El Salvador and Honduras in the south as well as a new transit route for drug trafficking across the country. Another problem for the state's monopoly on the use of force is the situation in some urban slums on the outskirts of Guatemala City, where youth gangs dispute state control. Whether, and to what degree, both phenomena are inter-related, is unverifiable. The number of homicide victims has increased further over the last two years: there were 5,500 homicides in 2005 and 5,885 in 2006. The civilian police proved not only incapable of curbing this development, but at times seemed to be involved: 2,500 police officers left the force under allegations of corruption and involvement in criminal activities. The government replaced them with former soldiers, a move that was widely criticized by civil society groups, given the military's record of human rights violations in the past. As former members of the military are said to be at the core of the criminal networks controlling the remains of the war economy (smuggling of humans, drugs and cars as well as control over illegal logging), this is not a measure that builds trust in state institutions. An agreement with the United Nations to establish a commission to investigate impunity and illegal and clandestine groups has been signed. Though a positive step in the right direction, whether the

Monopoly on the  
use of force

agreement will be ratified by Congress and then implemented remains to be seen. In 2004, a similar project was declared unconstitutional by the Supreme Court.

Formally, all citizens have the same legal rights, but exclusion and racism persist even though the peace accords defined Guatemala as a multicultural, multilingual and multiethnic country. The main divisions separate mestizo Ladinos (people of mixed European and indigenous descent) and Indígenas (indigenous peoples), a split that reflects wealthy vs. poor and urban vs. rural divisions. The Berger administration included some indigenous intellectuals and personalities ad persona, but these forms of inclusion remain mostly symbolic. It remains to be seen whether the establishment of an Indigenous Advisory Council, whose six members were chosen by representatives of the 23 Mayan groups, will be able to promote more inclusive politics.

State identity

The state's norms and basic order do not rest on religious dogmas. There is a complete separation of church and state. The Catholic Church shows the same fragmentation as Guatemalan society: while some bishops support the many and varied activities of civil society to reform the system, others stand by the conservative economic and political groups that support the status quo. Conservative evangelical groups have political influence in some of the political parties (e.g., the former governing party Guatemalan Republican Front, FRG). An evangelical priest, Harald Caballeros, will likely run for president in September 2007.

No interference of religious dogmas

The state's fundamental infrastructure extends throughout the entire territory, but corruption, a lack of professionalism, the arbitrary use of power and the influence of personal and criminal networks keep it from operating properly. In the run-up to elections, state infrastructure is widely used for party politics and cronyism. The corruption scandal in the civilian police force is just one blaring example.

Basic administration

## 2 | Political Participation

There are no de jure restrictions on free and fair elections, but there is de facto discrimination, primarily against the Indígenas in rural areas. For example, the Indígenas have little or no access to the media, little awareness of their rights, and suffer from intimidation. In the 2006 survey of Latinobarometro, 27% of Guatemalans said that they knew someone who was intimidated or who traded his vote. These problems notwithstanding, 53% said that elections are an efficient way to influence politics.

Free and fair elections

Although the elected government has the power to govern, individual groups with power – especially the military, business and financial organizations, and organized crime – can carve out their own domains or push through individual

Effective power to govern

policies for private benefit. This is evident in the many conflicts over mining and natural resources between international, national and private enterprises and some indigenous communities. While Guatemala has signed and ratified International Labor Organization convention 169, indigenous communities are rarely able to participate in the decision-making process regarding concessions and the use of royalties. In one rather disturbing development, the Ministry of Energy has declared illegal a series of consultations in some communities that were based on the ILO convention. A vast majority voted against the mining licenses in July 2006.

Unlimited freedom of association and assembly prevails, but numerous instances of intimidation against union members, human rights advocates and other representatives of civic groups restrict the exercise of these rights. Human rights groups reported 224 acts of intimidation during 2005 and 161 acts of violence and intimidation between January and August of 2006. Although political violence has played a minor role since the war's end, it is currently on the rise: between the end of March and mid-April of 2006, four politicians from opposition parties and social movements were shot down in broad daylight by what seemed to be professional assassins.

Association /  
assembly rights

Freedom of opinion and freedom of the press are guaranteed, but the media are dominated by the main economic interest groups. In addition, the government seeks to exert massive influence over the media, particularly during election campaigns. There is a tendency to establish Maya radio and television stations with the support of international donors. The evangelical presidential candidate Harald Caballeros has a radio network that covers nearly the entire country and transmits various long sermons along with music. This could provide him with a powerful publicity base for the elections in November 2007.

Freedom of  
expression

### 3 | Rule of Law

Deficits concerning the rule of law are a major problem for both the political and the economic transformation processes. There has been some progress in the last two years, namely the conviction of five people, including the grandson of the former dictator Efraim Ríos Montt, to over three years in prison for racial discrimination against Nobel laureate Rigoberta Menchú. Other improvements include the establishment of a field mission of the United Nations High Commissioner on Human Rights in Guatemala City and the signature of an agreement between the Guatemalan government and the United Nations to investigate illegal groups operating in the country. The previous agreement had been ruled unconstitutional by the Supreme Court and did not pass Congress because it would have given the commission the right to initiate criminal prosecutions – a right reserved for national institutions under Guatemalan law.

Separation of  
powers

The new commission, the Comisión Internacional contra la Impunidad en Guatemala (CICIG), will have an initial two-year mandate to assist Guatemalan public institutions in their investigations into the criminal activities of illegal, armed security and clandestine groups. There is a formal separation of power, but the dominance of the executive is clear. There were some attempts to strengthen the independency of the judiciary (see above). Congress is highly fragmented, which renders its oversight powers less effective. Since the elections of 2003 and especially in the recent run-up to upcoming elections, the number of political divisions and restructured alliances has increased. Most coalitions are focused on individuals rather than a shared political program. The former government party Guatemalan Republican Front (FRG) of ex-dictator Rios Montt remains the most coherent political force in Congress, while President Berger's Grand National Alliance (GAN) is disintegrating.

There has been some progress securing the independence of the judiciary although political pressure, intimidation and corruption remain serious problems. The level of impunity remains high, endangering the efficacy and credibility of the rule of law as a conflict-regulating mechanism. The conviction of Montt's grandson for racial discrimination in the case of Rigoberta Menchú has been the most positive development.

Independent  
judiciary

The Berger administration is trying to improve its efforts to prosecute corruption and the mishandling of funds. Former President Portillo is facing an extradition request in Mexico. But violence and intimidation make the fight against corruption a rather difficult task. In April 2006, a congressional deputy and a member of the opposition UNE (Unidad Nacional Esperanza), who was investigating the mishandling of funds in the education ministry, was shot in the south of Guatemala City.

Prosecution of  
office abuse

There are incidents of civil rights violations, in particular against the indigenous population. While the Berger government shows rhetorical and symbolic support for civil rights, the Indígenas continue to experience discrimination and racism daily. In April 2006, the United Nation's Special Rapporteur on Indigenous People, Rodolfo Stavenhagen, visited Guatemala and called on the Guatemalan government to adopt the monitoring mechanism of the Convention on the Elimination of All Forms of Racial Discrimination and to show progress in implementing the peace accord's provisions on indigenous peoples.

Civil rights

#### 4 | Stability of Democratic Institutions

The functioning of democratic institutions is limited due to their lack of stability and continuity as well as a lack of funding and professionalism and widespread corruption. Competing or not clearly defined competencies between institutions

Performance of  
democratic  
institutions



pose a further problem. The peace accords and other reforms have led to a series of transitional institutions being established, such as the peace secretariat, that are underfinanced. In the coming years, increasing the public service sector's independence and professionalism will remain major challenges.

Acceptance of democratic institutions is somewhat limited. Key status-quo-oriented actors (including members of the military and the economic elite) accept democratic mechanisms only as long as they do not challenge their dominant position. The support for democracy as the only legitimate mechanism of power distribution has increased over the last two years (from 32% in 2005 to 41% in 2006), but remains far below the Latin American average of 58%.

Commitment to democratic institutions

## 5 | Political and Social Integration

Guatemala's party system is fragile and highly fragmented, shows diffuse polarization, a highly volatile electorate and minimal anchoring in society. No incumbent party has yet returned to office, although the FRG succeeded in remaining the best organized political force in Congress after the 2003 elections. Hardly any substantive differences among the various parties can be identified; the primary criterion for distinguishing one from another is the personality of the top candidate in each party. The indigenous population has thus far organized only at the municipal level. In February 2007, Nobel laureate and indigenous rights activist Rigoberta Menchú announced that she would run for president in the September 2007 elections for the leftist party Encuentro por Guatemala.

Party system

The network of interest groups is relatively close-knit, but is dominated by a few strong interest positions and by severe power imbalances in particular. While the entrepreneur association CACIF is one of the most effective organizations in the country, there are several groups within the indigenous population, and they all have only limited political influence. One cause for concern is the persistence of informal power structures grounded in the criminal economy (see above 3). The ability of civil society to organize on its own is unbalanced and hindered by politico-cultural and socioeconomic barriers. Civil society organizations generally tackle isolated problems and are short-lived because, as with political parties, they are fragmented along personality lines. Furthermore, they are not socially embedded in society and have no links with the party system, which frustrates governance and the deepening of democracy.

Interest groups

Opinion polls show growing support for democracy (Latinobarómetro 2006: 41%), and an increasing approval for democracy as the best form of government (from 62% 2005 to 68% 2006). Trust in the capability of democracy to favor development grew from 39% (2003) to 47% (2006), while trust in the current government is low with only 26%.

Consent to democratic norms

Self-organization in civil society encounters many barriers, which reflects the main social division lines. The level of interpersonal trust increased over the last year to the highest (although still very low) level in all of Latin America: 33% of the people interviewed by Latinobarómetro 2006 said that they trusted their compatriots (in 2004, it was just 8%; the Latin American average was 22% in 2006). Whether this increase can be attributed to a sample selection or is a true sign of progress remains to be seen.

Associational activities

## II. Market Economy

Guatemala has a market economy with a high degree of social inequality and exclusion. This has not changed in the period of study although the regional and international development has been quite favorable and macroeconomic performance has been stable.

### 6 | Level of Socioeconomic Development

Guatemala is a middle income country with a long history of extensive and structurally embedded social exclusion. Social exclusion reflects the main lines of division within Guatemalan society between Ladinos and Indígenas as well as between urban and rural settings. The small, rich urban Ladino oligarchy controls most of the resources, while the vast majority of the indigenous rural population lives below the poverty line. According to UNDP data from 2006, roughly 56% of the population lives below the national poverty line; in indigenous departments, the percentage is much higher. The stable macroeconomic development of the last decade has helped to increase the Human Development Index slightly, but it has not transformed historical patterns of exclusion (HDI 1995: 0.617, 2004: 0.673). The economic model is based on the extraction of natural resources (such as gold, silver, copper, oil, etc.) with a low necessity of formal labor. Money transfers from migrants (remesas) to relatives in Guatemala alleviate some social problems and are of increasing importance for the country's economy. Informal and criminal segments of the economy are also growing.

Socioeconomic barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	23,268	24,881	27,399	<b>31,717</b>
Growth of GDP	%	2.2	2.1	2.7	<b>3.2</b>

		2002	2003	2004	2005
Inflation (CPI)	%	8	5.5	7.4	<b>8.4</b>
Unemployment	%	1.8	2.8	-	-
Foreign direct investment	% of GDP	0.5	0.5	0.6	<b>0.7</b>
Export growth	%	-5.7	-1.3	6.6	<b>-1.1</b>
Import growth	%	9.6	2.5	7.2	<b>1.4</b>
Current account balance	\$ mn.	-1234.9	-1039.2	-1210.8	<b>-1387.3</b>
Public debt	\$ mn.	3,097.7	3,426.6	3,794.5	<b>3,687.8</b>
External debt	\$ mn.	4,432.5	5,082.1	5,530.7	<b>5,349.0</b>
External debt service	% of GNI	1.8	1.9	2	<b>1.5</b>
Cash surplus or deficit	% of GDP	-0.9	-2.3	-0.9	<b>-1.5</b>
Tax Revenue	% of GDP	10.6	10.3	10.1	<b>9.6</b>
Government consumption	% of GDP	7.2	7.3	6.4	<b>5.9</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	1.9	2.1	2.3	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.7	0.7	0.4	<b>0.3</b>

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

## 7 | Organization of the Market and Competition

Market-based competition is present and quite stable, although mainly for the formal sector of the economy. Most of Guatemala's economically active population (75.4% according to a recent study by CIEN, in some regions over 80%) works in the informal sector.

Market-based competition

The formation of monopolies and oligopolies is regulated only sporadically and there is only limited legislation covering antitrust and unfair competition. Monopolies have recently returned to the scene, especially in the exploitation of raw materials such as oil and other mineral resources. At the moment, there is a concentration process ongoing in the financial sector that is partly motivated by regional processes but also partly manipulated by national interest groups that

Anti-monopoly policy

want to control the incoming remesas to rural Guatemala.

Foreign trade has been extensively deregulated; Guatemala ratified the Central American Free Trade Agreement with the United States in May 2005. As its predecessors, the Berger government follows a course of regional free trade and favors foreign investment in the resource extraction economy. In August 2005, Guatemala signed a trade agreement with Taiwan, which allows 65% of Guatemalan exports (mostly sugar) to be tariff-free. A government plan to privatize basic social infrastructures (water, health care) led to widespread protests by social organizations.

Liberalization of  
foreign trade

In 2002, the Guatemalan Congress passed a package of financial sector regulatory reforms that have increased the scope of regulation and supervision and brought local practices more into line with international standards. At the end of 2006, Banco del Café and three other banks were closed down under this legislation, which was followed a month later by a crisis in the financial sector (see above, Anti-monopoly). In January 2007, Banco del Comercio was also forced to close down. In April 2006, the International Finance Corporation signed an agreement to provide the country's largest financial institution, Banco Industrial, S.A, with a loan to help develop the financial sector.

Banking system

## 8 | Currency and Price Stability

Inflation is a problem in Guatemala mostly due to the rise in global energy prices. While inflation reached 9.9% during 2005, it was only 5.6% in 2006. The quetzal is undervalued as a result of the increasing inflow of remesas from Guatemalan migrants. Remittances reached a historical high of nearly \$3 billion in 2005 and \$3.6 billion in 2006. The central bank is independent and the four-year term of the bank's president does not coincide with the political cycle of elections.

Anti-inflation /  
forex policy

All governments have made economic stability one of their priorities, partly because of pressure from international financial institutions and the CAFTA negotiations with the United States. Thus, efforts to combat inflation and manage debt have been priorities for all administrations, although during election seasons this is often undermined by populist policies.

Macrostability

## 9 | Private Property

Property rights and the regulation of property acquisition are established, although here, as in other areas, deficiencies in the rule of law also take their toll. Property rights are mostly a problem for the poor, who lack access to the legal system. There were many conflicts over land titles in the last few years.

Property rights

Private enterprises constitute the core of the formal economic sector; most state enterprises have been privatized. However, most economic relationships operate in the informal and criminal sectors, where they are forged primarily on the anvil of power and not under the rule of law.

Private  
enterprise

## 10 | Welfare Regime

The cleavages within Guatemalan society also find expression in unequal access to basic health care services and education and in terms of life expectancy. Access to social insurance systems is segmented, and it varies widely according to region, social stratum and sector. Social safety nets that were once pervasive, especially in the Indian village communities, were largely destroyed by 36 years of civil war. Equal opportunity does not exist; discrimination follows the fault lines of social cleavages, and racist prejudices against the indigenous population remain widespread.

Social safety nets

Although formally there is equality of opportunity, women and the Indígenas are often discriminated against. This becomes evident in the education sector where indigenous women and girls are widely underrepresented. As a consequence, job opportunities and access to other public services is limited. HDI and poverty rates vary significantly between Ladino and Indígena households as they do between urban and rural areas, males and females.

Equal opportunity

## 11 | Economic Performance

Macroeconomic growth rates have been stable over the last decade and have reached 3.2% (2005) and 4.1% (2006). But this growth has not been enough to mitigate social disparities or to keep up with the relatively high population growth of 2.4%. The economy remains dependent on resource extraction and therefore depends on foreign investment and international prices, which have been quite favorable over the last few years. The most dynamic economic sector has been construction with a growth rate of nearly 25% in 2006. This was mostly due to government infrastructure projects and the use of remittances. The least performing sectors have been manufacturing and agriculture. The minimum salary remained under the inflation rate leading thus to a decrease in real income. Remittances reached a record high in 2006 while the trade and currency account deficits grew. The tax base has reached 10%, but remains extremely low by regional and international standards.

Output strength

## 12 | Sustainability

Environmental concerns generally take a back seat to growth considerations. Core problems include contaminated rivers, escalating deforestation and pollution caused by sugar cane plantations. In the context of the concessions for the extraction of mineral resources, negative environmental consequences have led to a series of conflicts, often over the use of water. In the tourism sector, there is growing concern about the possibility of enhancing eco-tourism. But this has not led to any serious changes in protecting the environment where, for example, open garbage dumps remain the rule.

Environmental  
policy

The illiteracy rate remains high at 30% (2004, HDR 2006). The school enrolment rate for 2004 was 93%. As in other sectors, social status determines access to and quality of education, training and higher education. Quality education is provided by expensive private schools, whereas public schools are under-financed and bilingual education remains an exception.

Education policy  
/ R&D

# Transformation Management

## I. Level of Difficulty

Guatemala is a middle-income country with a medium education level, high ethnic and social fragmentation, weak civil society traditions, serious problems in the rule of law and fragile institutional stability. Structural constraints on governance are moderate although the effects of 36 years of war, violence and destruction can still be felt. The main problem is the increasing influence of criminal networks, which the government is either not willing or unable to contain. In view of the positive regional context in favor of reform and stable international commitment to support such reforms, most of the structural constraints could be overcome if there was sufficient political will for further transformation. The continued exclusion of most of the indigenous population constitutes the most important structural constraint. Combined with the high level of poverty and social injustice, this has led to an increase in criminality as well as social and violent conflict in the agrarian sector, for example in land disputes and the illegal occupation of land. The Berger administration has paid lip service to pursuing a more inclusive policy, but results so far have been meager; dialogue with members of civil society is the sole exception. The combined lack of leadership and support in Congress as well as opposition in economic and political circles has hindered substantial change. Disillusionment is growing and some sectors of civil society that had originally supported the Berger government are reconsidering their policy positions.

Structural  
constraints

Civil society traditions are weak. Civil society organizations work either on specific issues or merely on a local basis. Fragmentation, conflict and mutual distrust are the main characteristics of civil society. Organizations try to negotiate benefits with the government on an individual basis and only rarely try to organize a consensus-based approach with other actors. Distrust is widespread and, after 36 years of war, violence and repression, is difficult to overcome.

Civil society  
traditions

Guatemala's society is deeply split along ethnic and social lines. Polarization is growing due to the lack of prospects for change by civilian means. The rate of violence in the rural areas, criminality and intra-personal violence throughout the country is steadily increasing – indeed, there is an alarmingly high number of

Conflict intensity

public lynchings. So far, there has been an astonishingly low level of politicization of these conflicts. But there are some indications of growing radicalization along ethnic lines. Youth gangs (maras) are growing in the absence of future prospects. With their numbers estimated anywhere between 16,000 and 165,000 members, they have control over several suburbs of the big cities. The establishment, including the mass media, argue that the maras are responsible for most of the violence in the country. The relationship between youth gangs and criminal networks has yet to be examined.

## II. Management Performance

During the period under review there was no change of government. The current administration of Oscar Berger (2004 – present) has no stable majority in Congress, which leads to ad hoc alliances being formed and pressure from important political and economic lobby groups. The government's early impetus for reform has since been countered by structural problems and a lack of support in Congress. President Berger did not deliver his annual address to Congress, but sent his spokesman as a replacement instead. During the period under review, there has been some symbolic progress made, but transformation is stagnating. The exclusion of the indigenous population remains the central challenge to be overcome if democratization and economic transformation are to be deepened.

### 14 | Steering Capability

Similar to its predecessors, the Berger government has acted mostly on an ad hoc basis when addressing the most urgent problems. Although many symbolic gestures have been made, there has been no real commitment in instituting the changes needed to integrate the indigenous population. However, should the Indígenas' representatives become better organized and grow increasingly radical, the need to follow through on reforms might become urgent. The ruling GANA alliance is considering the inclusion of prominent indigenous intellectuals in its election campaign. The political leadership claims that it is pursuing long-term aims, but these are often overridden by short-term interests or necessities. However, there is one positive development: the Berger administration signed an agreement to install an international commission to investigate impunity and criminal networks. It is not yet clear whether this mechanism will prove capable of countering criminal corruption. In addressing the problem of youth gangs and maras, the Berger government did not follow the examples of the Honduran and Salvadorian governments, which promoted a “super hard hand” against juvenile delinquents through measures such as

Prioritization



prohibiting tattoos and membership in gangs. Nevertheless, the security forces acted forcefully against youth gangs and there has been an increase in violence associated with “social cleansing.”

President Berger did formulate some substantial reform projects, but most are based on a trickle down approach that limits them to the maintenance of the social and economic status quo. Opposition groups are not strong enough and do not have an alternative reform agenda. Thus, so far, there is no real resistance to current reform plans. The absence of substance in reform projects is illustrated by President Berger’s decision to reduce military personnel numbers and make changes in the military cupola, which has not translated into increased accountability or efficiency in the security sector in combating crime and violence. The administration has not only included former soldiers and officers within the civilian police, but it has made the military’s involvement in police tasks of public security maintenance quasi-permanent. National and international human rights groups have criticized this as a regression in democratization.

Implementation

Political leadership has responded to mistakes and failed policies with changes, but this usually has entailed giving in to (sometimes violent) pressures from interest groups. An interesting exception was the policy with regard to the Civil Defense Patrols (Patrullas de Autodefensa Civil, PAC), where the government showed some adherence to its principles. Although President Berger did give the ex-PAC members the promised remuneration for which they had lobbied quite violently during the presidential elections of 2003 and in 2005, he denied them cash and insisted that they only received money in a scheme of infrastructure and reforestation projects. The administration was able to split the organizations of ex-PACs and reduce their influence. A similar approach of minimal concessions combined with a massive deployment of police and military forces to secure the streets was used against the protests organized by indigenous and campesino organizations in April 2006.

Policy learning

## 15 | Resource Efficiency

The government still fails to make efficient use of available resources. The politics of privatization leads to conflicts, sometimes violent, primarily with indigenous communities. During the review period, water and the privatization of hydroelectric projects lie at the heart of several social protests and ecological problems. The political and economic elite generally ignore and discredit the cultural traditions of the indigenous population. For instance, a social reform policy could build on traditional solidarity patterns in the Indian village communities by either revitalizing or developing them further. Only in the area of justice have some steps been taken at the local level – supported and fostered by international development partners – to revive and strengthen the customary law of the indigenous peoples.

Efficient use of assets

Efforts to coordinate government policy are deficient although they have improved compared to former governments. Distrust between government and civil society renders cooperation and coordination difficult. The lack of communication and social integration between civil society and the political system further complicates any coordination effort. A case in point is the dismissal of maya intellectual Victor Montejo from the peace secretariat and the nomination of a previously unknown official, Norma Quixán.

Policy coordination

Some integrity mechanisms are implemented, but they remain mostly ineffective. The dismissal of 2,500 police officers because of their ties to organized crime is a case in point. Their replacement by former military officers did not contain the corruption and networking with criminals. Criminal networks are mostly formed with the help of former military officers and Mexican drug cartels often seem to hire Guatemalan elite soldiers (Kabiles) to protect their businesses.

Anti-corruption policy

## 16 | Consensus-Building

While most major political actors formally agree on the goals of democracy and a market economy, their understanding of these goals varies widely. The traditional political and economic elite see democracy and a market economy as a mechanism through which to maintain the status quo, while social organizations and civil society groups seek to use them as instruments for fundamental change. As they are fragmented and have not been able to reach a consensus on a common reform project, transformation has stagnated.

Consensus on goals

Reformers (meant in the broad sense, including some members of the current government) try to co-opt or control veto powers. The most important veto powers are the criminal networks, which the U.N. commission CICIG will investigate, and the traditional economic elite that insists on the maintenance of status quo.

Anti-democratic veto actors

The current administration has achieved little in reducing existing cleavages. Polarization between social groups is on the rise although it is so far rather unorganized. Most civil society organizations criticize the president and his administration for failing to deliver on promises made during the election campaign. This disillusion fuels polarization and undermines trust in democratic proceedings.

Cleavage / conflict management

There are some mechanisms of consultation between civil society and the government, but the government made no use of them during the last two years. There remains a fundamental lack of cooperation between civil society and the political system. Many civil society organizations lost the initial hope that the

Civil society participation

Berger administration would implement reforms. Thus criticism, distrust and polarization are increasing, a tendency that will likely grow during the election year 2007.

The political leadership does recognize the need to deal with past acts of violence but fails to promote reconciliation. Impunity for past and current human rights violations remains a basic problem; it has characterized every administration since the peace accords were signed ten years ago. While PAC members received government funds, there is no coherent public policy for the compensation of the war's victims.

Reconciliation

## 17 | International Cooperation

The political leadership works with bilateral and multilateral donors but uses their support only partly to improve policies. Development aid is used in part as a substitute for national social policies. Because macroeconomic stability is the government's priority, investment in social projects has remained low. Health care spending, for example, is only 2.1 % of GDP (HDR 2006).

Effective use of support

The government is generally considered credible although there are voices, especially from the United States, warning that the influence of criminal networks is turning Guatemala into a "mini-Colombia." Compared to the former government, the current administration has successfully improved Guatemala's standing with the international community. The election of Guatemala to the new UNHRC is a case in point. But at the same time, many donors are concerned about the increasing influence of criminal networks and the government's impotence in confronting them.

Credibility

The political leadership cooperates with many neighboring states and complies with the rules set by regional and international organizations. Most important to the government are good relations with the United States, which mostly involve the issues of free trade, drugs (about 10 tons of cocaine are trafficked to the United States via Guatemala annually) and migration (about 10% of Guatemalans live legally and illegally in the United States). Relations with Guatemala's direct Central American neighbors Honduras and El Salvador are good, cooperation centers on economic integration and combating crime, where Guatemala is the country with the "softest" policy approach against youth gangs. Relations with Belize are more difficult due to the historical border conflict, but negotiations are under way.

Regional cooperation

## Strategic Outlook

Promoting a policy of integration for Guatemala's indigenous population and their genuine political and economic participation is essential if the country is to advance transformation. Symbolic inclusion is not enough, real reforms – most of all concerning rural livelihoods – such as bilingual education and improving basic social infrastructures are needed. These reforms must be conducted simultaneously with policies aimed at combating and overcoming rampant racism. It is imperative that the government communicate the benefits of integration and dispel fears that integration will tear at the fabric of other social groups. Visible improvements in the short term are needed to countervail the tendencies of polarization along ethnic lines. Illegal and criminal networks must be dismantled if democratic reforms are to hold and be deepened. Their continued power and influence will only erode the elements of democracy the political system has achieved thus far. Strengthening the rule of law and reforming the judiciary are therefore crucial. Guatemalan politics, economics and society need to overcome personalized forms of action and enhance approaches based on cooperation and a reconciliation of divergent interests. International donors should thus promote mechanisms to ensure transparency, accountability and inclusion as a basis for the development of sustainable human, social and economic capital. Although developments in Guatemala are not a top priority for donors, they should be aware of the increasing problems, and they should use their leverage to promote joint and coordinated approaches in favor of reform. If current trends persist, Guatemala could face renewed social and political turmoil and unrest. The increasing levels of political violence point in this direction and should not be underestimated. Although most of the current violence is related to organized crime, it also carries a political message warning adversaries (economic or political) not to interfere. Organized crime is powerful due to its relations and links to the legal world economy, such as money laundering in the financial sector or the acquisition of real estate in the megacities or in the countryside. As a transnational issue, battling organized crime requires that donors cooperate beyond providing training or financial support for repressive “solutions” like those promoted by the United States at the moment.